

# State Revenue Reductions

## Background.

On August 19<sup>th</sup> Governor Warner announced a \$1.5 billion revenue shortfall in the State's two-year budget cycle. This equates to approximately \$615 million in FY 2003 and \$885 million in FY 2004. He warned that State government "may look starkly different" after a new round of severer spending cuts. Governor Warner stated he would freeze all discretionary spending, continue the State hiring freeze, not allow any capital project construction contracts be signed and placed State agencies on a monthly spending limit. In addition he ordered reduction plans of up to 15 percent developed in all agencies. Data source: Washington Post, Fredericksburg Free Lance-Star.

On August 30<sup>th</sup>, VACo, after a meeting with the State Secretary of Finance, indicated that state reductions would be announced around October 15<sup>th</sup>. However, other sources suggest that mid November is a more likely date as submissions from State agencies are not due until September 20<sup>th</sup>.

## Fauquier County Impact.

Until the details of the reductions are identified, the specific impact to local programs and services is unknown. The current worse case planning scenario of 15 percent cut in State revenue would impact as follows:

	Budgeted	15% Reduction
General County Government	\$7.2 million	\$1.1 million
School Division	<u>\$25.8 million</u>	<u>\$3.9 million*</u>
Total	\$33.0 million	\$5.0 million

\*With a bifurcated budget adoption, the General County Government has the option to offset any loss of State revenue by the School Division.

*General County Government.* Several departments have heard rumors about possible reductions in their areas, however nothing solid has been confirmed.

### *School Division.*

The School Division staff has also been working on this issue. They were recently informed from the State Department of Education that Direct Aid funding, such as K-9 education would be exempt from percentage cuts, but not from targeted program reductions. The State House Appropriations Subcommittee on Elementary and Secondary Education met and reviewed a number of programs for cuts or elimination. The Subcommittee will meet three more times in the next few weeks for further review.

Of those programs being considered by the Subcommittee, 10 affect the local School Division. Total State support to these programs for FY 2003 is \$545,114.

<b>Amount</b>	<b>Program</b>
\$123,571	K-3 Class Size Reduction Program
\$0	Preschool Initiative for At-Risk 4-Year Olds (pass thru, not budgeted until received)
\$22,388	Early Intervention Reading Initiative
\$85,301	Dropout Prevention
\$0	GED Funding (Is not budgeted until received)
\$59,866	At-Risk
\$16,251	English as a Second Language
\$0	Project Discovery
\$0	Governor's Schools
\$0	Regional Consortia
\$108,647	Alternative Education
\$45,086	SOL Remediation
\$55,403	SOL Algebra Readiness
\$0	Health Incentive Fund (do not budget until receive)
\$21,590	Technology Assistants
\$0	Virginia Career Education Foundation
\$0	Small School Division Grants
\$0	Achievable Dream
<u>\$7,011</u>	Adult Literacy
<b>\$545,114</b>	<b>Total</b>

It should be noted that this information is preliminary and could be significantly changed prior to the final State reductions.

#### **Financial Status (Information is preliminary, unaudited).**

Possible sources to offset State revenue losses, if necessary, could include funding from the FY2002 General County and School Divisions' ending fund balances or the overall Fund Balance. The following information is provided which outlines these funding sources. In addition brief comments will be provided regarding the non-State revenue projections for FY 2003.

General County Government FY 2002 Estimated Year End Balance	\$1,679,719*
School Division FY 2002 Estimated Year End Balance	\$1,024,760*
Overall Fund Balance	\$12,431,706*

\*The FY 2002 ending balances are net of \$1.6 million identified for Construction Reserves. The Overall Fund Balance is net of the appropriated use of these funds in FY 2002 and does not reflect any of the balances from FY 2002.

**General County Government**  
Projected FY 2002 Year End Balance  
(Unaudited, Finance is still processing documents)  
Reports as of 9-2-02

**FY 2002 Expenditure Balance** \$2,306,025

**Expenditure Actions Pending (Known)**

Contingency Reserve	(\$1,000,000)
Gain Sharing	( \$3,500)
Library Balance to Bealeton Library	( \$6,136)
CSA Software Training	( \$11,200)
Piedmont Child Care Center	( \$8,900)
Reserve for Encumbrance	<u>( \$37,771)</u>
Sub Total	(\$1,067,507)
Adjusted Expenditure Balance	\$1,238,518
Less Construction Reserve (1/2 balance)	(\$ 619,259)

**Net Expenditure Balance** **\$ 619,259**

**Revenue Balance\*** \$4,737,283

**Revenue Adjustments Pending (Known)**

CSA Supplemental Funding	\$318,000
Digital Imaging – Clerk of Circuit Court - State Funds	( \$243,937)
JAI Block Grant – State Funds	( \$5,520)
Sheriff's Office Seizures – State/ Federal	( \$9,730)
Sheriff's Office Insurance Proceeds	( \$2,378)
Social Services Child Day Care – State Funds	( \$14,133)
GIS Insurance Payment	( \$2,729)
Radio System Debt Service	( \$577,396)
Renovation of 320 Hospital Hill, Warren Green And County Courthouse	(\$2,000,000)
Renovation of Detention Center	<u>(\$1,139,000)</u>
Sub Total	(\$3,676,823)
<b>Adjusted Revenue Balance</b>	<b><u>\$1,060,460</u></b>

**Estimated Total Net Balance** **\$1,679,719**

\* Adjusted to reflect approved use of prior year fund balance in FY 2002.

**Fauquier County Public Schools**  
**FY 2002**  
**Preliminary Unaudited Year End Report**

Expenditures:	Revenues:	
\$ 84,121,845.72	\$ 77,004,458.91	
	\$ 8,018,483.47	<i>Revenue to be received from general government</i>
	\$ 549,487.28	<i>Sales tax for August to be accrued</i>
	\$ 456,323.04	<i>Federal revenue to be accrued</i>
	\$ (1,041.68)	<i>Worker's compensation to be paid</i>
	\$ (134,423.07)	<i>Premium on bond</i>
	\$ 466,000.00	<i>SOL Technology Initiative grant to be accrued</i>
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\$ 84,121,845.72	\$ 86,359,287.95	

	\$ 2,237,442.23	Balance remaining at year end
		<i>Running Balance</i>
<i>SOL training carry over</i>	\$ (83,969.00)	\$ 2,153,473.23
<i>Drop out prevention carry over</i>	\$ (15,318.00)	\$ 2,138,155.23
<i>SOL teaching materials carry over</i>	\$ (63,792.00)	\$ 2,074,363.23
<i>Reserve for encumbrances</i>	\$ (2,000.00)	\$ 2,072,363.23
<i>Local special education grant</i>	\$ (18,737.00)	\$ 2,053,626.23
<i>E-rate</i>	\$ (4,105.42)	\$ 2,049,520.81
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	\$ 2,049,520.81	
Cons. Reserve	\$ (1,024,760.41)	
	\$ 1,024,760.41	1/2 of adjusted balance

**Non-State Revenue Projections FY 2003.**

As part of the FY 2003 Budget development process the Revenue Committee carefully reviewed all revenue elements to determine the estimated impact of the economy downturn. Their final projections included adjustments in several revenue categories based on this review. Examples include sales tax revenue and interest on investments. As of the August monthly meeting the Revenue Committee had not identified any change to their final non-State revenue projections.

## **Contingency to Address Possible State Revenue Shortfall.**

*General County Government.*

*Phase I -FY 2003.*

Pending the specific identification of areas and amounts of State funding reduction.

1. Hiring freeze for all positions with the exception of sworn law enforcement personnel, emergency responders and E911 call takers.
2. Place a moratorium on new positions/or other expenses that constitute discretionary new programs or an expansion of mission out of the annual budget cycle.
3. Initiate a detailed review of capital project balances and related operating costs.
4. Place a moratorium on the further appropriation of un-obligated FY2002 carryover balances for both the General Government and the School Division, except to address specific State revenue reductions, until the mid-year revenue and expenditure review.

*Phase II – FY 2003.*

Following the identification of the areas and amounts of State funding reduction, the County Administrator will prepare a detailed response plan for consideration by the Board of Supervisors. This plan shall be presented to the Board no later than December 2002.

*School Division- FY 2003*

The School Division has begun addressing contingencies to address the possibility of the State revenue shortfalls. Currently the major factors include the projection of additional State funding for greater growth in ADM and the use of FY 2002 School Division fund balance.

**FY2004.** Any identified State funding reductions for FY 2004 will be addressed as part of the FY 2004 Budget process.